50	**STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2017-18)** **SIXTEENTH LOK SABHA**

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Observations / Recommendations contained in the Forty first Report of the Standing Committee on Chemicals and Fertilizers (Sixteenth Lok Sabha) on the subject 'Freight Subsidy Policy' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

FIFTIETH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

JULY, 2018 /SHRAVANA, 1940 (SAKA)

CC&F.No.50

FIFTIETH REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS
(2017-18)

(SIXTEENTH LOK SABHA)

MINISTRY OF CHEMICALS AND FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

[Action Taken by the Government on the Observations / Recommendations contained in the Forty first Report of the Standing Committee on Chemicals and Fertilizers (Sixteenth Lok Sabha) on the subject 'Freight Subsidy Policy' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

Presented to Lok Sabha on 31 July, 2018

Laid in Rajya Sabha on 31 July, 2018

LOK SABHA SECRETARIAT
NEW DELHI
JULY, 2018 /SHRAVANA, 1940 (SAKA)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS

(2017-18)

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Shri George Baker
3. Smt. Anju Bala
4. Shri B.N. Chandrappa
5. Shri Pankaj Chaudhary
6. Shri Sankar Prasad Datta
7. Dr. Ratna De Nag
8. Smt. Veena Devi
9. Shri R.Dhruvanarayana
10. Shri Innocent
11. Prof. A Seetaram Naik #
12. Shri K. Ashok Kumar
13. Shri Chhedi Paswan
14. Smt. Kamla Devi Patle
15. Shri Rajendran S.
16. Dr. Kulamani Samal
17. Dr. Uma Saren
18. Dr. Krishna Pratap Singh
19. Shri Kirti Vardhan Singh
20. Smt. Rekha Arun Verma
21 Shri Sarfaraz Alam*

RAJYA SABHA

22. Shri Biswajit Daimary
23. Shri Prem Chand Gupta
24. Shri B.K. Hariprasad
25. Shri Vijay Pal Singh Tomar@
26. Shri Ranvijay Singh Judev
27. Shri Sanjay Dattatraya Kakade
28. Dr. Sanjay Sinh
29. Shri Abdul Wahab
30. Vacant^
31. Vacant^

SECRETARIAT

1.	Shri Vinod Kumar Tripathi	Joint Secretary
2.	Shri A. K. Srivastava	Director
3.	Shri U. C. Bharadwaj	Deputy Secretary

 # Prof. A. Seetaram Naik MP, (LS) has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017 vice Shri Kotha Prabhakar Reddy MP, (LS) who ceased to be a Member of the Committee on Chemicals and Fertilizers w.e.f. 3.11.2017

**Shri Sarfaraz Alam has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 27.04.2018*

@Shri Vijay Pal Singh Tomar has been nominated as a Member of the Committee on Chemicals and Fertilizers w.e.f. 02.06.2018

^Vacant vice Dr. Bhusan Lal Jangade due to his retirement from Rajya Sabha on 02.04.2018.

^Vacant vice Shri K. Parasaran due to his retirement from Rajya Sabha on 28.06.2018.

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2017-2018) having been authorised by the Committee to present the Report on their behalf, present this Fiftieth Report (Sixteenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Forty first Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2017-18) on the subject 'Freight Subsidy Policy' pertaining to the Ministry of Chemicals and Fertilizers (Department of Fertilizers)

2. The Forty first Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on 21.12.2017. The Action Taken replies of Government to all observations / recommendations contained in the Report were received on 6.7.2018. The Standing Committee on Chemicals and Fertilizers (2017-2018) considered and adopted this Report at their sitting held on 23.07.2018.

3. An analysis of the Action Taken by the Government on the observations/recommendations contained in the Forty first Report (Sixteenth Lok Sabha) of the Committee is given in **Appendix-II.**

4. For facility of reference and convenience, the Comments of the Committee have been printed in bold letters in the body of the Report.

New Delhi;
27 July, 2018
05 Shravana 1940 (Saka)

ANANDRAO ADSUL
Chairperson
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

This Report of the Standing Committee on Chemicals and Fertilizers (2017-18) deals with the action taken by the Government on the Observations/Recommendations contained in the Forty First report (Sixteenth Lok Sabha) of the Committee on 'Freight Subsidy Policy' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers), which was presented to Lok Sabha and laid in Rajya Sabha on 21.12.2017. In all, the Committee made **09** Observations/ Recommendations in the Report.

1.2 The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish Action Taken Replies to the Observations / Recommendations contained in the aforesaid Report within three months from the date of presentation of the Report, i.e. by 21.03.2018. However, the Action Taken Replies of the Government in respect of all the **09** Observations / Recommendations contained in the Report were furnished by the Ministry of Chemicals and Fertilizers (Department of Fertilizers) vide their O.M. No H-11021/9/2017-Parl, on 06.07.2018. These Action Taken Replies have been examined and categorized as follows:

(i) Observations / Recommendations that have been accepted by the Government:-
Rec. Nos. 4 and 8 (Total= 02)

This may be included in Chapter II of the Draft Report.

(ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:-
Rec. No. 6 and 9 (Total=02)

This may be included in Chapter III of the Draft Report.

(iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee :-
Rec. Nos. 1, 2, 5 and 7 (Total=04)

This may be included in Chapter IV of the Draft Report.

(iv) Observations / Recommendations in respect of which final replies of the Government are still awaited:-
Rec. Nos. 3 (Total=01)

These may be included in Chapter V of the Draft Report.

1.3. The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I and Chapter-V of this Report should be furnished expeditiously.

1.4 The Committee will now deal with action taken by the Government on some of their Observations/Recommendations which still require reiteration or merit comments.

RECOMMENDATION NOs. 1 and 2

(Recommendation No. 1)

UNIFORM FREIGHT SUBSIDY POLICY (UFS)

1.5 Highlighting the need for review of Uniform Freight Subsidy Policy, the Committee recommended as under:-

> "The uniform Freight Subsidy (UFS) Policy was notified and made effective from 1st April, 2008 with the sole objective to ensure timely and easy availability of fertilizers in all corners of the country. This policy was brought into practice vis-a-vis earlier Equated Freight Policy wherein freight subsidy in case of road transportation both for primary and secondary movement was allowed/reimbursed on the basis of normative per KM rate without slab implies actual freight was paid up to the District level and a normative freight beyond rail rake point in the District to the Point of Sale in the Block concerned. The earlier Equated Freight Policy allowed fixed road freight per tonne per Km for imported urea for different ports, which was used to be notified at the time of annual tender for appointing handling and distribution agents. In case of indigenous and imported P&K fertilizers, the freight subsidy was incorporated under the cost head "other costs" as a fixed amount. Under the Uniform Freight Subsidy Policy there is no change as far as rail freight is concerned, which is allowed as actual but with a limit of distance i.e. maximum upto 1400 Kms from the point of production or the port as the case may be, has been put. In case of road transportation both for primary and secondary movement of fertilizers freight rates have been prescribed on normative basis per KM per tonne slab-wise. However, for primary movement a limit of upto 500 Kms and in respect of secondary movement i.e. from rail rake to Point of Sale (PoS) at block level a condition of average lead distance have been fixed under the UFS Policy. This new policy also excluded the handling charges in case of imported fertilizers. The Committee are dismayed to know that though new Uniform Freight subsidy Policy was notified in April, 2008, the normative per KM rate year-wise could not be notified yearly on right time as envisaged in the Policy. As a result, the freight rates became applicable retrospectively and consequently accumulated over the years ultimately resulting in increased burden of under recoveries of fertilizer producing and importing companies. Taking a holistic view of the Uniform Freight Subsidy Policy, the Committee are of the considered view that the new Uniform Freight Policy (UFS) was notified by the Ministry in haste without exercising due diligence. Though they appreciate the initiative of the Government for bringing in new Freight Policy yet they are of the view that the real objective to ensure timely and easy availability of fertilizers has not been achieved and instead has created more confusion and workability constraints. They also feel constrained to apprehend as to why this new policy could not be

fine-tuned and reviewed since its implementation in April, 2008. The Committee are of the considered view that the Government should come out with a Freight Policy which is scientific and economical but at the same time it must be invariably practical enough to deliver ground results. The application of this new Uniform freight slab-wise regime has not been found smooth, efficient and effective enough. Having analyzed and examined the extant Freight Policy from all angles, its feasibility and practability, the Committee strongly recommend to the Government to review and revisit all aspects of the new Uniform Freight subsidy policy and fine tune it to make it more realistic and workable on the ground level."

Recommendation No 2

FREIGHT RATES

1.6 While emphasizing the need to rationalise the normative slab-wise freight rates, the Committee recommended as under

"Under the new regime of Uniform Freight Subsidy effective from 1st April 2008, freight rates both for primary and secondary movement have been notified in terms of normative per KM per tonne as recommended by the Tariff Commission. These freight rates have been prescribed in 4 slabs (i) 0-100 Kms (ii) 101-250 (iii) 251-350 and (iv) 351-500 Kms). These rates have been linked to Composite Road Transport Index computed on the basis of wholesale Price Index. The Composite Road Index consists of 6 components (i) depreciation 12% (ii) salary and wages 11% (iii) tax and insurance 5% (iv) diesel 36% (v) repairs and maintenance 17% and (vi) tyres & tubes 19%. The Committee were apprised that this linkage has been done to arrive at freight rates compatible with inflation on monthly basis, which means these rates may either escalate or de-escalate. The Committee were also informed that these rates have been notified only after the scientific study made and recommended by the Tariff Commission and approved by the Cabinet committee on Economic Affairs. The Committee after having examined and studied the freight rates fixing procedure and the method, arrive at conclusion that the procedure and method as such are not questionable but its practicality. In real practice this method of slab-wise rate does not work in real economics. For instance a transporter may agree to transport the fertilizers upto 100 Kms @ Rs 4.25 per tonne per KM instead 101 Kms @ Rs 2.71 per KM per tonne prescribed as notified by the Ministry. The Committee find that as per the earlier subsidy regime before UFS regime, the road rates were though normative but reimbursed per KM per tonne without slab, which mean on actual basis. They observe that due to this lacunae of slab-wise road rates, the real objective of UFS policy to ensure timely and easy availability of fertilizers has been adversely impacted to a large extent. Therefore, the Committee strongly believe that there is an urgent need to revisit the slab-wise format of road freight rates. The Committee therefore, recommend that normative rates followed during Equated Freight Policy be allowed to continue instead of slab wise rates and Government to rationalize the existing normative road transport rates per KM per tonne and make them more workable and practicable without slab system."

REPLY OF THE GOVERNMENT

RECOMMENDATION NO. 1 & 2

1.7 In their action taken reply to the aforementioned recommendations of the Committee, the Department of Fertilizers has stated as under:-

"Prior to Uniform Freight Subsidy Policy effective from 1st April, 2008, Equated Freight Policy was applicable wherein equated freight was worked out for the urea quantity under ECA allocation on the basis of average normative lead and rail road mix for each unit during the previous three years. The freight subsidy for each fertilizer was different and mostly with a fixed freight element due to which the manufacturers and importers tend to sell fertilizers in areas close to their production/import facilities to keep their freight expenditure within the fixed freight available. Besides, the rising transportation costs further limited their ability to send fertilizers to distant/remote corners of the country. This was resulting in temporary shortages in availability of fertilizers especially in remote pockets of the country. The Equated Freight Policy was not serving the objective of easy availability of subsidized fertilizers. Therefore, Uniform Freight Policy was notified by the Department of Fertilizers on 17th July, 2008 effective from 1st April, 2008, vide which freight subsidy is paid to Urea units on the actual movement of fertilizers up to the block level based on monthly district wise /block movement plans. Under Uniform Freight Policy- 2008, the Per Tonne Per Kilometer rates upto the year 2015-16 have been finalized which are based on the systematic/scientific study conducted by Tariff Commission."

COMMENTS OF THE COMMITTEE

1.8 The Committee in their original report noted that Uniform Freight Subsidy Policy was notified and made effective from 1st April 2008 onward vis-a-vis Equated Freight Policy. The Committee appreciated the initiative of the Government for bringing new Freight Policy in their report but lamented that the real objective of the new Policy to ensure timely and easy availability of fertilizers could not be achieved and instead created confusion and workability constraints. They also constrained to apprehend as to why this new Policy could not be fine- tuned and reviewed since its implementation in April 2008. The Committee having analyzed and examined this new Policy from all angles of feasibility and practicability strongly recommended the Government to review and revisit the new Uniform Freight Subsidy Policy to make it more realistic and workable.

In their second recommendation regarding freight rates, the Committee noted that freight rates both primary and secondary movements were made normative per Kilometer per tonne as per the recommendation as per the Tariff Commission in four slabs (i) 0-100 Kms (ii) 101-250 (iii) 251-350 and (iv) 351-500 Kms). The Committee further noted that the freight subsidy before UFS regime i.e. before April 2008 was used to be reimbursed on actual basis. They observed that due to normative slab wise rates per per Kilometer per tonne adversely impacted the availability of fertilizers and strongly felt the need to revisit slab-wise format of freight rates.

The Government in their Action Taken Replies have stated that the freight subsidy for each fertilizer was different and mostly with a fixed freight element due to which the manufacturers and importers tend to sell fertilizers in areas close to their production/import facilities to keep their freight expenditure within the fixed freight available, this was resulting in temporary shortages in availability of fertilizers especially in remote pockets of the country. The Committee are not satisfied with the action taken replies of the Government in this regard. They have noted that the fertilizers companies are complaining about their accumulated arrears of freight subsidy due to cumbersome procedure envisaged under the extant UFS Policy. The Committee are not in agreement with the action taken by the Government and are of the considered view that the present UFS Policy needs immediate review and fine-tuning and therefore, reiterate their earlier recommendation Nos. 1&2 seeking comprehensive action taken reply in this regard.

RECOMMENDATION NO. 5

FREIGHT BUDGET

1.9 Seeking additional funds for clearance of all claims of freight subsidy, the Committee recommended as under:-

"The Committee note that expenditure on freight subsidy has increased enormously from Rs. 1049.80 crores in 2005-06 to Rs. 2979.85 crores in 2017-18. Budget estimates 2017-18 for freight subsidy were fixed at Rs 3000 crores, which have almost been exhausted for making payments for the period 2015 to January 2017. The Committee were informed that in order to liquidate the regular freight subsidy claims from February 2017 onwards and differential freight subsidy claims since 01.01.2008, an additional requirement of Rs. 3700 crores has been proposed by the Ministry in the Revised Estimates 2017-18. They were further apprised of the fact that the claims for differential freight have not yet been generated and the regular freight subsidy claims amounting to Rs. 701.97 crores are pending as on 29.11.2017 due to non-availability of funds in the freight subsidy head of account and accordingly pending claims will be cleared as and when additional funds i.e. Rs. 3700 crores are provided under the subsidy head. The Committee are perturbed to note the sorry state of affairs is prevailing in the Government where no serious planning and management of resources is resorted to. They think that only piece-meal measures and window dressing method are being adopted to allow the fund predicament spill over from year to year without shooting the same. They further observe that no scientific planning from the zero base is done and conditions are allowed to be worst than the worse. It also manifests lack of coordination among all the stakeholders and the real responsibility solely lies on this account. In view of the above, the Committee think it expedient to impress upon the Government to mobilise requisite funds at the Revised Estimates stage to clear all the regular subsidy claims pending from February, 2017 onwards and differential payment on account of freight subsidy bills paid on old rates. They also urge the nodal Ministry to pass necessary directions to the fertilizers companies to feed the requisite data since 2008 onward in a time bound manner to generate the claims and their smooth payment accordingly. Simultaneously, they recommend that Ministry of Finance must allocate adequate additional funds at Revised Estimates stage during the current winter session of Parliament itself to clear the entire back log of subsidy claims of regular bills and spill over bills including differential payments since 2008 onwards."

REPLY OF THE GOVERNMENT

1.10 "In 2017-18, at BE stage the allocation for Freight Subsidy was Rs. 3000 Crore. An additional amount of Rs. 2000 Crore was made available through 2nd Batch of Supplementary Demand for Grants to liquidate the carry over liabilities in Freight Subsidy. Thus, total amount of Rs. 5000 Crore was released towards freight subsidy to indigenous urea units."

COMMENTS OF THE COMMITTEE

1.11 The Committee in their original recommendation noted that the expenditure on freight subsidy has increased from Rs. 1049.80 crores in 2005- 06 to Rs. 2979.85 crore in 2017-18. They also noted that since the implementation of Uniform Freight Subsidy in April 2008, the differential freight arrears increased. They further noted that Rs 3700 crores were allocated at Revised Estimates 2017-18 to clear these subsidy claims pending. They were perturbed to note the prevailing state of affairs in reimbursement of claims pertaining to freight subsidy due to absence of serious planning and mis-management of resources. They expressed their dissatisfaction over piecemeal measures and window dressing methods which allowed spillover of arrears year to year. In view of this, the Committee recommended that the Ministry of Finance must be pursued to allocate additional funds at revised estimates stage during the current winter session (December 2017) of the Parliament to clear the entire backlog of subsidy claims of regular and spillover bills since 2008 onwards.

In their Action Taken Reply the Government stated that Rs. 3000 crore were allocated under freight subsidy head in 2017-18 and an additional amount of 2000 crore was made available through 2nd Batch of Supplementary Demands for Grants to liquidate the carry over liabilities in Freight Subsidy, thus, total amount of Rs. 5000 Crore was released towards freight subsidy to indigenous urea units. The Committee appreciate the additional allocation of Rs. 2000 crore through 2nd batch of supplementary Demands for Grants to liquidate the carry over liabilities. However, they are not satisfied with the evasive reply of the Government. The latter did not bother to give a comprehensive action taken reply

detailing the overall position of arrears of freight subsidy claims and the available funds with the Ministry to reimburse them. The Committee also note that the Ministry did not mention the efforts done in this regard to clear the arrears and address the problems faced by fertilizers company in uploading their claims through iFMS module. They, therefore, reiterate their earlier recommendation for a comprehensive action taken reply by the Government.

RECOMMENDATION NO. 7

Time Required to reimburse Freight subsidy claim

1.12 Stressing for time bound clearance of bills, the Committee recommended as under:-

"The Committee have been informed that the laid down payment processing period has been fixed 60 days after the receipt of claims complete in all aspects. However, the Ministry submitted in a note that this is subject to availability of funds. The Committee further get informed by some fertilizers producing companies during their interaction with the latter that the Ministry take on an average 6 months period after receipt of the claims to reimburse the same, which adversely affect the working capital and the profitability of the companies because of added interest burden accrued as a result of blocked pending claims. The Committee take it serious for not following the laid down criteria of 60 days for clearing and making payment. The Committee were apprised that current Freight Bills in hand are to the tune of Rs. 563.00 crore. Besides this there is carry over liability of Rs. 1063.05 crore. Thus, Rs. 1616.05 crore are still to be reimbursed. This is a huge amount ultimately affecting the performance of the fertilizers companies. As a result of this, the companies had to borrow loan from banks at a higher rate of interest. This is double whammy on fertilizer companies producing and importing urea. The Committee feel that this is a national wastage which could have been avoided. They therefore castigate the Ministry for delaying payments beyond reasonable delay. They agree that there may be some financial constraints but at the same time fertilizers companies are made to suffer due to delayed reimbursement of the freight expenditure already incurred and paid by them. Having taken a holistic view of the predicament of delayed payment/reimbursement of freight subsidy and their imminent adverse impact on the fertilizers companies, the Committee strongly recommend the Ministry to strictly adhere to the laid down limit of 60 days period for generating claims and their reimbursement accordingly. They also recommend that it must be mandatory on the part of Ministry of Chemicals and Fertilizers (Department of Fertilizers) to clear the claims within the stipulated timeline otherwise the fertilizers companies be paid interest for the delayed period beyond prescribed period of 60 days as the Income Tax Department pays on delayed refund."

REPLY OF THE GOVERNMENT

1.13 "Due to sufficient availability of funds during the previous financial year 2017-18 and in the current financial year 2018-19, no freight claims is pending for payment as on date. Further, due to merger of subsidy head of A/C with the Freight head of A/C, there will not be any shortage of funds in future for payment of Freight Subsidy claims of urea manufacturing units."

COMMENTS OF THE COMMITTEE

1.14 The Committee in their original report noted that 60 days limit has been fixed for payment processing period after the receipt of claims complete in all aspects subject to availability of funds. This period is extended normally up to 06 months as per the information provided by the fertilizers companies, which affect their working capital adversely. Having taken this delay in processing of claims, the Committee strongly recommended the Ministry to strictly adhere to the laid down limit of 60 days period for reimbursement of claims. They also recommended this processing period of 60 days to be made mandatory to clear all the claims failing which interest be paid for the delayed period beyond 60 days on the lines the Income Tax Department pays on delayed refund.

In their action taken reply, the Ministry have stated that due to sufficient availability of funds during the previous financial year 2017-18 and in the current financial year 2018-19, no freight claims is pending for payment as on date. Further, due to merger of subsidy Head of A/C with the Freight head of A/C, there will not be any shortage of funds in future for payment of Freight Subsidy claims of urea manufacturing units. The Committee appreciate the merger of subsidy head with freight subsidy Head account in order to ensure no shortage of funds for the payment of freight subsidy claims. However, they are of the strong view that unless the process of generating claims is fine tuned and made eco-friendly for

users, there will be invariably delays in generating claims, which will ultimately have adverse impact in clearance and reimbursement of claims which are to be generated by the fertilizer companies. Moreover, the Ministry remained silent on the recommendations of the Committee regarding interest payment for delayed period beyond 60 days as prescribed period. The Committee, therefore, are not fully satisfied with the four lines action taken reply and reiterate their earlier recommendations for a concrete and comprehensive reply by the nodal Ministry/Department.

CHAPTER – II

OBSERVATIONS / RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

RECOMMENDATION NO. 4

AVAILABILITY OF RAKES

"Availability of rakes plays vital role to ensure timely and easy availability of fertilizers throughout the country. At present the Ministry of Railways have opened 880 rake points all over the country to unload fertilizers from rail rakes for onward transmission to the Points of Sale (PoS) in all blocks of the districts. Opening of rake points is a continuous process and the Ministry of Railways explore the feasibility for opening of new rake points in the country. State Governments request Ministry of Chemicals and Fertilizers (Department of Fertilizers) to create additional rake points for smooth transportation of fertilizers to the real beneficiaries i.e. farmers nearby the area. The Department of Fertilizers then take up the matter with the Ministry of Railways to create new rakes points after analyzing the feasibility and demand. The Committee during the course of examination of the subject in question were apprised by the Ministry of Chemical and Fertilizers (Department of Fertilizers) that 45 requests presently pending with the Ministry are being processed in close coordination with the Ministry of Railways. They were further informed that all the rakes points opened have been operationalised. The Committee note with concern that the requests received from the concerned state Governments for opening of new rail rake points for unloading of fertilizers to ensure timely availability to farmers have not been accorded due priority and allowed to pendies of these requests without any reason for years together, which ultimately impacted the success of crops adversely. The farmers are allowed to suffer at the mercy of non-availability of rail rake points due to feasibility constraints. While noting that 880 rail rake points have been opened till date throughout the country for smooth transportation of fertilizers yet the Committee are of the considered opinion that this is inadequate number given to the large size of the country and heavy requirement of fertilizers by the farmers. They, therefore, cannot help but recommend that the pending requests for opening of new rail rake points be processed at war footing by according utmost priority and the committee be apprised of the same without fail."

REPLY OF THE GOVERNMENT

"The matter has been taken up with the Ministry of Railways. The status of requests received from States and sent to M/o Railways for opening of rake points /notional rake points from 01.04.2014 till date is as per Appendix attached. It may be seen that most of rake points have been operationalised.

Further, M/o Railways has informed that creation, strengthening, development and up gradation of rake points is an ongoing activity and proposals are taken for sanction and execution based on operational requirement, commercial viability, financial justification, technical feasibility, resource availability and overall priority in gamut of sanctioned projects.

It is pertinent to mention that fertilizers are transported across the country from ports/plants through railways/roads and from rake points to districts/blocks through road. With the existing arrangement no shortage of fertilizers has been reported from any part of the country. Since there is further scope for improvement in terms of opening more take points, it has been the continuous endeavour on the part of M/o Railways to strengthen the existing infrastructure for smooth movement of goods including fertilizers."

RECOMMENDATION NO. 8

Merger of Subsidy Head with General subsidy Head

"The Committee note with concern that non-availability of adequate funds under Freight Subsidy Head has been found a major constraint for accumulated backlog of arrears on account of freight subsidy. The Ministry has been allocated Rs 3000 crores at the Budgetary Estimates stage for the year 2017-18 and out of that Rs 2979.85 crores have been incurred for the purposes of reimbursement of freight subsidy claims submitted by the fertilizers companies up to January, 2017 only. To clear pending claims of regular claims from February, 2017 onwards and reimbursement of differential claims accrued since April, 2008 onwards, the Ministry have proposed additional funds of Rs. 3700 crores as supplementary budget at the Revised Estimates stage during the current Winter session of Parliament to clear regular freight subsidy claims and differential claims reimbursement which are likely to be generated this year only since April 2008 onwards till date. The Committee gauze from the above that the Ministry have followed adhoc policy/measures and not holistic approach while planning and managing their financial requirement on the sound financial principles like zero-base budgeting. They are of the firm view that the Ministry failed in their assessment of requisite funds needed on realistic basis, and as a result they have to ask for Rs 3700 crores as additional funds at the RE stage which are more than the actually allocated Rs. 3000 crore at the Budgeting Estimate stage for the current year 2017-18. To avoid adhoc policy/approach pertaining to seeking budget for freight subsidy, the Committee are of the considered view that the freight subsidy 'Head' must be merged with the general subsidy 'Head' so that there shall not be any deficiency of funds for payment/reimbursement of freight subsidy bill as in the case of P&K subsidy scheme where there is a single 'Head' of account for both general subsidy and freight subsidy. The Committee were further got enlightened that the Ministry of Chemicals and Fertilizers (Department of Fertilizers) have already sent a note to IFD on 26.10.2017 in this direction to avoid paucity of funds on the similar provision in case of P&K subsidy scheme. The committee welcome this initiative of the Ministry but at the same time urge upon the latter to vigorously pursue their proposal with the IFD to get approval and then implement the same without delay from 2018-19 onwards invariably. The Committee hope that in the ensuing Budget i.e. 2018-19, the issue would be resolved by merging Freight subsidy with General subsidy."

REPLY OF THE GOVERNMENT

"In pursuance of recommendation of Standing Committee, the Budget Head for Freight Subsidy has already been merged with the Budget Head of Indigenous Urea Subsidy from the current financial year i.e. 2018-19."

CHAPTER – III

OBSERVATION / RECOMMENDATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

RECOMMENDATION NO. 6

SEQUENTIAL RE-IMBURSEMENT OF FREIGHT SUBSIDY

"The Committee note that the existing software fitted into the Integrated Fertilizers Monitoring system, a web based system allows generation of freight subsidy claims in sequential manner only which implies that if any claim pertaining to particular month is pending for generation due to some reasons, the fertilizers company are restrained to generate the claims for onwards months even when the claims for prospective months are in order. The in-built reimbursement software in the FMS doesn't accept the feeding of the details of bills meant for prospective months. They think that due to this small operating lacuna/deficiency in the system huge backlog of arrears get accumulated, adversely impacting the book of profit and loss of the concerned fertilizer company. They were also informed that this particularly happens when a new district is created out of the existing district by the State Government. Submission by the Secretary, Department of Fertilizers during evidence that even the companies do not seem to be aware that they have to inform the Ministry about the creation of new district speaks volume about the lack of coordination between the Department and fertilizers companies. The Committee strongly disapprove this and expect that Department of Fertilizers should be proactive in this regard and keep themselves abreast with the formation/ reorganization of new districts. The Committee are also of the considered view that the existing software for generating claims be fine tuned/redesigned in such a way that the monthly data though not in sequence but in order may be accepted and accordingly reimburse the prospective claims. They, therefore, urge upon the Government to redesign/fine tune/restructure their software in such a way wherein the prospective claims be accepted to ensure smooth and timely payment of freight subsidy claims."

REPLY OF THE GOVERNMENT

"In IFMS module of DoF/NIC sequential generation of claims, their submission and payment thereof is being followed to reconcile the production, dispatch, receipt of quantity and acknowledgements by retailers applying FIFO method. Due to sufficient availability of funds during the previous financial year 2017-18 and in the current financial year 2018-19, no freight claims is pending for payment as on date."

RECOMMENDATION NO. 9

Digital Payment/Reimbursement

"The Committee have been informed that regular claims for freight subsidy are processed only when physical bills/invoices submitted by the fertilizers companies. They also note that the Ministry of Chemicals and Fertilizers maintains a web based Integrated Fertilizer Monitoring System (iFMS) for various functions like import of raw material, custom clearances, production dispatches from plants and ports and return receipts, sale claim generation and

so on. The Committee appreciate the digital initiative of the Ministry but at the same time emphasize on its optimum utility. During the interaction with fertilizers companies the Committee were solicited to consider and recommend to the Ministry for processing of subsidy claims and payment thereto through digital technology only in order to avoid delay usually occurs while submitting claim physically. The Committee concur with their suggestion fully and do not find any procedural hiccups to process digitally if the claims are submitted on-line in order and certified by the statutory auditors appointed by the fertilizers companies. They are of the considered view that doing so will boost efficiency and transparency in the system and save lot of efforts, energy and unnecessary expenditure to a great extent. They, therefore, recommend that the Government must come out with such a proposal at the earliest in this regard and apprise the former."

REPLY OF THE GOVERNMENT

"Under the DBT system, all the subsidy payments are made through digital mode. The fertilizer sale transactions at retail point are tracked online in the Integrated Fertilizer Management System (iFMS). After the sale of fertilizers, the companies submit online claims which are processed digitally in iFMS and the subsidy payments are released through electronic mode. The Pay & Account Office (PAO) processes the payments through Public Financial Management System (PFMS) and credits the subsidy amount to the company's bank account."

CHAPTER – IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

RECOMMENDATION NO. 1

UNIFORM FREIGHT SUBSIDY POLICY (UFS)

"The uniform Freight Subsidy (UFS) Policy was notified and made effective from 1st April, 2008 with the sole objective to ensure timely and easy availability of fertilizers in all corners of the country. This policy was brought into practice vis-a-vis earlier Equated Freight Policy wherein freight subsidy in case of road transportation both for primary and secondary movement was allowed/reimbursed on the basis of normative per KM rate without slab implies actual freight was paid up to the District level and a normative freight beyond rail rake point in the District to the Point of Sale in the Block concerned. The earlier Equated Freight Policy allowed fixed road freight per tonne per Km for imported urea for different ports, which was used to be notified at the time of annual tender for appointing handling and distribution agents. In case of indigenous and imported P&K fertilizers, the freight subsidy was incorporated under the cost head "other costs" as a fixed amount. Under the Uniform Freight Subsidy Policy there is no change as far as rail freight is concerned, which is allowed as actual but with a limit of distance i.e. maximum upto 1400 Kms from the point of production or the port as the case may be, has been put. In case of road transportation both for primary and secondary movement of fertilizers freight rates have been prescribed on normative basis per KM per tonne slab-wise. However, for primary movement a limit of upto 500 Kms and in respect of secondary movement i.e. from rail rake to Point of Sale (PoS) at block level a condition of average lead distance have been fixed under the UFS Policy. This new policy also excluded the handling charges in case of imported fertilizers. The Committee are dismayed to know that though new Uniform Freight subsidy Policy was notified in April, 2008, the normative per KM rate year-wise could not be notified yearly on right time as envisaged in the Policy. As a result, the freight rates became applicable retrospectively and consequently accumulated over the years ultimately resulting in increased burden of under recoveries of fertilizer producing and importing companies. Taking a holistic view of the Uniform Freight Subsidy Policy, the Committee are of the considered view that the new Uniform Freight Policy (UFS) was notified by the Ministry in haste without exercising due diligence. Though they appreciate the initiative of the Government for bringing in new Freight Policy yet they are of the view that the real objective to ensure timely and easy availability of fertilizers has not been achieved and instead has created more confusion and workability constraints. They also feel constrained to apprehend as to why this new policy could not be fine-tuned and reviewed since its implementation in April, 2008. The Committee are of the considered view that the Government should come out with a Freight Policy which is scientific and economical but at the same time it must be invariably practical enough to deliver ground results. The application of this new Uniform freight slab-wise regime has not been found smooth, efficient and effective enough. Having analyzed and examined the extant Freight Policy from all angles, its feasibility and practability, the Committee strongly recommend to the Government to review and revisit all aspects of the new Uniform Freight

subsidy policy and fine tune it to make it more realistic and workable on the ground level."

RECOMMENDATION NO. 2

FREIGHT RATES

"Under the new regime of Uniform Freight Subsidy effective from 1st April 2008, freight rates both for primary and secondary movement have been notified in terms of normative per KM per tonne as recommended by the Tariff Commission. These freight rates have been prescribed in 4 slabs (i) 0-100 Kms (ii) 101-250 (iii) 251-350 and (iv) 351-500 Kms). These rates have been linked to Composite Road Transport Index computed on the basis of wholesale Price Index. The Composite Road Index consists of 6 components (i) depreciation 12% (ii) salary and wages 11% (iii) tax and insurance 5% (iv) diesel 36% (v) repairs and maintenance 17% and (vi) tyres & tubes 19%. The Committee were apprised that this linkage has been done to arrive at freight rates compatible with inflation on monthly basis, which means these rates may either escalate or de-escalate. The Committee were also informed that these rates have been notified only after the scientific study made and recommended by the Tariff Commission and approved by the Cabinet committee on Economic Affairs. The Committee after having examined and studied the freight rates fixing procedure and the method, arrive at conclusion that the procedure and method as such are not questionable but its practicality. In real practice this method of slab-wise rate does not work in real economics. For instance a transporter may agree to transport the fertilizers upto 100 Kms @ Rs 4.25 per tonne per KM instead 101 Kms @ Rs 2.71 per KM per tonne prescribed as notified by the Ministry. The Committee find that as per the earlier subsidy regime before UFS regime, the road rates were though normative but reimbursed per KM per tonne without slab, which mean on actual basis. They observe that due to this lacunae of slab-wise road rates, the real objective of UFS policy to ensure timely and easy availability of fertilizers has been adversely impacted to a large extent. Therefore, the Committee strongly believe that there is an urgent need to revisit the slab-wise format of road freight rates. The Committee therefore, recommend that normative rates followed during Equated Freight Policy be allowed to continue instead of slab wise rates and Government to rationalize the existing normative road transport rates per KM per tonne and make them more workable and practicable without slab system."

REPLY OF THE GOVERNMENT

RECOMMENDATION NO. 1 & 2

"Prior to Uniform Freight Subsidy Policy effective from 1st April, 2008, Equated Freight Policy was applicable wherein equated freight was worked out for the urea quantity under ECA allocation on the basis of average normative lead and rail road mix for each unit during the previous three years. The freight subsidy for each fertilizer was different and mostly with a fixed freight element due to which the manufacturers and importers tend to sell fertilizers in areas close to their production/import facilities to keep their freight expenditure within the fixed freight available**.** Besides, the rising transportation costs further limited their ability to send fertilizers to distant/remote corners of the country. This was resulting in temporary shortages in availability of fertilizers especially in remote pockets of the country. The Equated Freight Policy was not serving the objective of easy availability of subsidized fertilizers. Therefore, Uniform Freight

Policy was notified by the Department of Fertilizers on 17th July, 2008 effective from 1st April, 2008, vide which freight subsidy is paid to Urea units on the actual movement of fertilizers up to the block level based on monthly district wise /block movement plans. Under Uniform Freight Policy- 2008, the Per Tonne Per Kilometer rates upto the year 2015-16 have been finalized which are based on the systematic/scientific study conducted by Tariff Commission."

Comments of the Committee
(Please see Para No. 1.8 of Chapter - I of the Report)

RECOMMENDATION NO. 5

FREIGHT BUDGET

"The Committee note that expenditure on freight subsidy has increased enormously from Rs. 1049.80 crores in 2005-06 to Rs. 2979.85 crores in 2017-18. Budget estimates 2017-18 for freight subsidy were fixed at Rs 3000 crores, which have almost been exhausted for making payments for the period 2015 to January 2017. The Committee were informed that in order to liquidate the regular freight subsidy claims from February 2017 onwards and differential freight subsidy claims since 01.01.2008, an additional requirement of Rs. 3700 crores has been proposed by the Ministry in the Revised Estimates 2017-18. They were further apprised of the fact that the claims for differential freight have not yet been generated and the regular freight subsidy claims amounting to Rs. 701.97 crores are pending as on 29.11.2017 due to non-availability of funds in the freight subsidy head of account and accordingly pending claims will be cleared as and when additional funds i.e. Rs. 3700 crores are provided under the subsidy head. The Committee are perturbed to note the sorry state of affairs is prevailing in the Government where no serious planning and management of resources is resorted to. They think that only piece-meal measures and window dressing method are being adopted to allow the fund predicament spill over from year to year without shooting the same. They further observe that no scientific planning from the zero base is done and conditions are allowed to be worst than the worse. It also manifests lack of coordination among all the stakeholders and the real responsibility solely lies on this account. In view of the above, the Committee think it expedient to impress upon the Government to mobilise requisite funds at the Revised Estimates stage to clear all the regular subsidy claims pending from February, 2017 onwards and differential payment on account of freight subsidy bills paid on old rates. They also urge the nodal Ministry to pass necessary directions to the fertilizers companies to feed the requisite data since 2008 onward in a time bound manner to generate the claims and their smooth payment accordingly. Simultaneously, they recommend that Ministry of Finance must allocate adequate additional funds at Revised Estimates stage during the current winter session of Parliament itself to clear the entire back log of subsidy claims of regular bills and spill over bills including differential payments since 2008 onwards."

REPLY OF THE GOVERNMENT

"In 2017-18, at BE stage the allocation for Freight Subsidy was Rs. 3000 Crore. An additional amount of Rs. 2000 Crore was made available through 2nd Batch of Supplementary Demand for Grants to liquidate the carry over liabilities in

Freight Subsidy. Thus, total amount of Rs. 5000 Crore was released towards freight subsidy to indigenous urea units."

COMMENTS OF THE COMMITTEE
(PLEASE SEE PARA NO. 1.11 OF CHAPTER - I OF THE REPORT)

RECOMMENDATION NO. 7

Time Required to reimburse Freight subsidy claim

"The Committee have been informed that the laid down payment processing period has been fixed 60 days after the receipt of claims complete in all aspects. However, the Ministry submitted in a note that this is subject to availability of funds. The Committee further get informed by some fertilizers producing companies during their interaction with the latter that the Ministry take on an average 6 months period after receipt of the claims to reimburse the same, which adversely affect the working capital and the profitability of the companies because of added interest burden accrued as a result of blocked pending claims. The Committee take it serious for not following the laid down criteria of 60 days for clearing and making payment. The Committee were apprised that current Freight Bills in hand are to the tune of Rs. 563.00 crore. Besides this there is carry over liability of Rs. 1063.05 crore. Thus, Rs. 1616.05 crore are still to be reimbursed. This is a huge amount ultimately affecting the performance of the fertilizers companies. As a result of this, the companies had to borrow loan from banks at a higher rate of interest. This is double whammy on fertilizer companies producing and importing urea. The Committee feel that this is a national wastage which could have been avoided. They therefore castigate the Ministry for delaying payments beyond reasonable delay. They agree that there may be some financial constraints but at the same time fertilizers companies are made to suffer due to delayed reimbursement of the freight expenditure already incurred and paid by them. Having taken a holistic view of the predicament of delayed payment/reimbursement of freight subsidy and their imminent adverse impact on the fertilizers companies, the Committee strongly recommend the Ministry to strictly adhere to the laid down limit of 60 days period for generating claims and their reimbursement accordingly. They also recommend that it must be mandatory on the part of Ministry of Chemicals and Fertilizers (Department of Fertilizers) to clear the claims within the stipulated timeline otherwise the fertilizers companies be paid interest for the delayed period beyond prescribed period of 60 days as the Income Tax Department pays on delayed refund."

REPLY OF THE GOVERNMENT

"Due to sufficient availability of funds during the previous financial year 2017-18 and in the current financial year 2018-19, no freight claims is pending for payment as on date. Further, due to merger of subsidy head of A/C with the Freight head of A/C, there will not be any shortage of funds in future for payment of Freight Subsidy claims of urea manufacturing units."

COMMENTS OF THE COMMITTEE
(PLEASE SEE PARA NO. 1.14 OF CHAPTER - I OF THE REPORT)

CHAPTER – V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT ARE STILL AWAITED

RECOMMENDATION NO. 3

DELAY IN REIMBURSEMENT OF DIFFERENTIAL RATES

"The Committee note that UFS Policy was notified way back in April, 2008 and reimbursement of road transport charges on normative per KM per tonne rate started accordingly. As these normative rates were linked to the Composite Road Transport Index based on wholesale Price Index (WPI) on monthly basis on the recommendation of the Tariff Commission, considerable delay in the process of notification on regular basis occurred ultimately leading to accumulated arrears of road freight subsidy. The reimbursement continued on old rates. For example normative per tonne per Kilometer (PTPK) rates for the year 2007-08, 2008-09 and 2009-10 were notified on 18.03.2014 and finally for the years 2014-15 and 2015-16 were notified on 04.09.2017 and that too could not be uploaded on the system as a result of which freight subsidy claims could not be paid till 2017 resulting into accumulating of huge arrears. This shows a very casual approach of the Government in dealing with the serious issue affecting farmers' welfare and security even at critical times when farmers are resorting to suicide due to drought conditions and failure of crops due to non availability of farm inputs on time. The Committee are further dismayed to note that the Government could formulate and notify the formula for payment of differential rates first time in October, 2017 wherein the fertilizers producing and importing companies have to feed data retrospectively month-wise since the year 2008 onwards to claim the differential arrears, if any, accrued on account of payment made previously on old rates. The Committee having been apprised by the fertilizers companies conclude that the process of feeding data retrospectively is a very cumbersome and tedious. Firstly revised rates could not be uploaded in time, secondly, the cumbersome process of feeding data of difference previous years augmented the problem. The Committee feel that the crux of problem lies in delay in formulating the formula and delay in uploading the same. The Committee, therefore, strongly disapprove the delay occurred in formulation and its notification. They are of the firm view that this delay manifests a callousness of the Government towards the already pathetic condition of farmers and fertilizers companies which are nearly succumbing to the mammoth burden of under recoveries of their respective balance-sheet. They, in this context, take a very serious view and strongly recommend that accountability be invariably fixed on those responsible this delay. The Committee are given to understand that indian Potash limited (IPL) which imports urea has completely fed the entire data and they are in the process of generating the differential bills. The Committee are appreciative of IPL in this regard and recommend that other companies should follow IPL and if required seek their assistance through the intervention of Department of Fertilizers. They also strongly recommend that normative PTPK rate for road transport be prospectively notified much before beginning of the Rabi and Kharrif crop seasons henceforth."

REPLY OF THE GOVERNMENT

"Differential freight claims are now being generated by the urea manufacturing units from the IFMS module of NIC and will be settled as early as possible after receipt of the claims in the Department**."**

New Delhi;

27July, 2018
05 Shravana, 1940 (Saka)

ANANDRAO ADSUL
Chairperson
Standing Committee on
Chemicals and Fertilizers

Appendix- I

MINUTES OF THE FOURTEENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2017-18)

The Committee sat on Monday, the 23 July, 2018 from 1500 hrs. to 1530 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Anandrao Adsul - Chairperson

MEMBERS

LOK SABHA

2. Shri George Baker
3. Smt. Anju Bala
4. Shri Sankar Prasad Datta
5. Smt. Veena Devi
6. Shri K. Ashok Kumar
7. Shri S. Rajendran
8. Smt. Kamla Devi Patle
9. Dr. Kulamani Samal
10. Smt. Rekha Arun Verma
11. Dr. Prof. Seetaram Naik

RAJYA SABHA

12. Dr. Sanjay Sinh
13. Shri Ranvijay Singh Judev
14 Shri Vijay Pal Singh Tomar

SECRETARIAT

1. Shri Vinod Kumar Tripathi - Joint Secretary
2. Shri A. K. Srivastava - Director
3. Shri U. C. Bharadawaj - Deputy Secretary

2. At the outset, the Hon'ble Chairperson welcomed the Members of the Committee.

3. The Committee thereafter took up for consideration and adoption the following draft Reports:

(i) Draft Report on the subject 'Assam Gas Cracker Report' of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals)

(ii) Draft Report on Action taken Replies by the Government on the Observations/ Recommendations contained in the Forty First Report of the Standing Committee on Chemicals and Fertilizers (16th Lok Sabha) on the subject 'Freight Subsidy Policy' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers);

(iii) Draft Report on Action taken replies by the Government on the Observations/ Recommendations contained in the Forty Fifth Report of the Standing Committee on Chemicals and Fertilizers (16th Lok Sabha) on 'Demand for Grants (2018-19)' of the Ministry of Chemicals and Fertilizers (Department of Pharmaceuticals).

(iv) Draft Report on Action taken replies by the Government on the Observations/ Recommendations contained in the Forty Fourth Report of the Standing Committee on Chemicals and Fertilizers (16th Lok Sabha) on 'Demand for Grants (2018-19)' of the Ministry of Chemicals and Fertilizers (Department of Chemicals and Petrochemicals).

4. After deliberations the Draft Reports were adopted by the Committee. without any changes/amendments.

5. The Committee authorised the Chairperson to make consequential changes, if any, arising out of the factual verification of the Reports by the Department of Fertilizers, Department of Pharmaceuticals and Department of Chemicals and Petrochemicals**.**

The Committee then adjourned.

Appendix – II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTY FIRST REPORT (SIXTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2017-18) ON THE SUBJECT REPORT ON 'FREIGHT SUBSIDY POLICY' OF THE MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS).'

I	Total No. of Recommendations	09
II	Observations / Recommendations which have been accepted by the Government: (*Vide* Recommendation Nos. 4 and 8)	2
	Percentage of Total	22%
III	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:- (*Vide* Recommendation No. 6 and 9)	2
	Percentage of Total	23%
IV	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation No. 1 , 2, 5 and 7)	4
	Percentage of Total	44%
V	Observations / Recommendations in respect of which final replies of the Government are still awaited: (*Vide* Recommendation Nos. 3)	1
	Percentage of Total	11%